

**ISHPEMING CITY SCHOOL DISTRICT
ISHPEMING, MICHIGAN**

**FINANCIAL STATEMENTS
For the Year Ended June 30, 2005**

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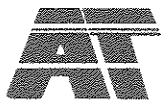
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INDEPENDENT AUDITORS' REPORT

Board of Education
Ishpeming City School District
Ishpeming, Michigan 49849

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Ishpeming City School District, Ishpeming, Michigan, as of and for the year ended June 30, 2005, which collectively comprise the Ishpeming City School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Ishpeming City School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the comptroller general of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Ishpeming City School District, Ishpeming, Michigan as of June 30, 2005, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 23, 2005, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 6 through 11 and 35, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Education
Ishpeming City School District
Ishpeming, Michigan 49849

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Ishpeming City School District's basic financial statements. The combining and individual fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards as listed under "Compliance Section" in the foregoing table of contents is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Ishpeming City School District. The combining and individual fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

September 23, 2005

Ishpeming City School District

Management's Discussion and Analysis (Unaudited)

Our discussion and analysis of Ishpeming City School District financial performance provides an overview of the School District's financial activities for the year ended June 30, 2005. Please read it in conjunction with the financial statements, which begin on page 12.

FINANCIAL HIGHLIGHTS

- Net assets for Ishpeming City School District as a whole were reported at \$2,319,795. Net assets are comprised of 100% governmental activities.
- During the year, Ishpeming City School District expenses were \$9,661,078, while revenues from all sources totaled \$8,977,630, resulting in a decrease in net assets of \$683,448.
- The general fund reported a net decrease of \$690,215. This is \$108,739 or 14% lower than the forecasted decrease of \$798,954. This was a result of revenues being \$77,775 higher than forecasted and expenses and transfers out being \$30,964 lower than forecasted.
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USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Ishpeming City School District financially as a whole. The *District-wide Financial Statements* Statement of Net Assets and the Statement of Activities (on pages 12 and 13) provide information about the activities the School District as a whole and present a longer-term view of those finances. The fund financial statements present the next level of detail and start on page 14. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. The fund financial statements also report the School District's operations in more detail than the district-wide statements by providing information about the School District's most significant fund – the General Fund, with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Reporting the School District as a Whole – *District-wide Financial Statements*

Our analysis of the Ishpeming City School District as a whole begins on page 8. One of the most important questions asked about the School District's finances is "As a whole, what is the School District's financial condition as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the School District as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Management's Discussion and Analysis (Unaudited) (Continued)

These two statements report the School District's net assets and changes in them. The School District's net assets – the difference between assets and liabilities – is one way to measure the School District's financial health, or financial position. Over time, increases or decreases in the School District's net assets – as reported in the Statement of Activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as private-sector companies do.

One must consider other non-financial factors, such as the quality of education provided, the safety of the schools and the condition of the School District's capital assets, to assess the overall financial health of the School District.

The Statement of Net Assets and Statement of Activities report the governmental activities for the School District, which encompass all the School District's services, including instruction, supporting services, community services, athletics, and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and Federal grants finance most of these activities.

Reporting the School District's Most Significant Funds – *Fund Financial Statements*

Our analysis of the School District's major funds begins on page 10. The fund financial statements begin on page 15 and provide detailed information on the most significant funds – not the School District as a whole. Some funds are required to be established by State law, and by bond covenants. However, the School District's Board has established other funds to help it control and manage money for particular purposes. The School District's two kinds of funds - *governmental* and *proprietary* – use the following accounting methods.

- *Governmental funds* – All of the School District's services are reported in governmental funds which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted into cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and Statement of Activities) and governmental funds in a reconciliation which follows the fund financial statements.
- *Proprietary funds* – The School District does not have any Proprietary funds.

The School District as Trustee – Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds and auditorium fund. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

Management's Discussion and Analysis (Unaudited) (Continued)

The School District as a Whole

Table 1 provides a summary of the School District's net assets as of June 30, 2005:

Table 1		
Net Assets		
	Governmental Activities - 2005	Governmental Activities - 2004
Current and other assets	\$2,826,306	\$2,592,252
Capital assets, net	5,220,695	5,495,500
Total Assets	8,047,001	8,087,752
Current liabilities	1,837,936	857,880
Long-term liabilities	3,889,270	4,226,629
Total Liabilities	5,727,206	5,084,509
Net Assets:		
Invested in capital assets, net of related debt	1,501,640	1,690,295
Restricted	198,889	257,639
Unrestricted	619,266	1,055,309
Total Net Assets	\$2,319,795	\$3,003,243

The School District's net assets were \$2,319,795 at June 30, 2005. Capital assets, net of related debt totaling \$1,501,640, compares the original cost, less depreciation of the School District's capital assets to long-term debt, used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets of \$619,266 was unrestricted.

The \$619,266 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the Statement of Activities (see Table 2), which shows the changes in net assets for fiscal year 2004.

Table 2		
Changes in Net Assets		
	Governmental Activities - 2005	Governmental Activities - 2004
Revenues:		
Program revenues:		
Charges for services	\$560,455	\$527,824
Operating grants and contributions	1,418,546	1,522,857
General revenues:		
Property taxes	1,033,401	1,043,094
State sources not restricted to specific program	5,773,899	5,915,886
Investment earnings	24,651	18,407
Miscellaneous	166,678	78,809
Total Revenues	8,977,630	9,106,877

Management's Discussion and Analysis (Unaudited) (Continued)

	Governmental Activities – 2005	Governmental Activities – 2004
Program Expenses:		
Instruction	\$5,280,906	\$5,765,954
Supporting services	2,598,635	2,526,978
Community services	18,614	618
Other governmental units and transactions	509,628	445,060
Food service activities	295,383	266,256
Athletic activities	197,662	232,545
Depreciation – unallocated	460,511	489,746
Interest on long-term debt	299,739	201,687
Total Expenses	<u>9,661,078</u>	<u>9,928,844</u>
Increase (decrease) in net assets	(683,448)	(821,967)
Net assets, beginning	<u>3,003,243</u>	<u>3,825,210</u>
Net Assets, Ending	<u>\$2,319,795</u>	<u>\$3,003,243</u>

As reported in the Statement of Activities, the cost of all of our governmental activities this year was \$9,661,078. Certain activities were partially funded from those who benefited from the programs \$560,455 or by other governments and organizations that subsidized certain programs with grants and categoricals \$1,418,546. We paid for the remaining "public benefit" portion of our governmental activities with \$1,033,401 in taxes, \$5,773,899 in State Foundation Allowance, and with our other revenues, such as interest and general entitlements.

The School District experienced a decrease in net assets for the year of \$(683,448).

Key reasons for the change in net assets were as follows:

- Net decrease in governmental fund balances of \$(730,581).
- Depreciation charged to expense of \$(460,511).
- Purchase of capital assets in the amount of \$140,995.
- Principal payment on debt in the amount of \$3,495,861 and proceeds from debt issues of \$(3,365,000).
- Other miscellaneous transactions of \$235,788.

Table 3 presents the cost of each of the School District's largest activities as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that each function placed on the School District's operation.

Table 3
Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$5,280,906	\$3,724,807
Supporting services	2,598,635	2,540,325
Other governmental units	509,628	490,538
Food service activities	295,383	45,314
Athletic activities	197,662	102,229
Totals	<u>\$8,882,214</u>	<u>\$6,903,213</u>

Management's Discussion and Analysis (Unaudited) (Continued)

The net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State aid constitute the vast majority of the School District's operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available financial resources.

The School District's Funds

As noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed the year, its governmental funds (as presented in the balance sheet on page 14) reported a combined fund balance of \$1,159,652, a decrease of \$(730,581) from the beginning of the year.

General Fund Budgetary Highlights

Over the course of the year, the School District's Board revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2005, the School District had \$5,175,984 invested in a variety of capital assets including land, buildings, and machinery and equipment. (See table 4 below)

Table 4
Capital Assets at Year-End

	Governmental Activities - 2005	Governmental Activities - 2004
Land	\$14,401	\$ 14,401
Construction in progress	9,166	-
Land improvements	194,700	194,700
Buildings	27,110,891	26,979,062
Machinery and equipment	2,327,496	2,327,496
Vehicles	648,298	648,298
	30,304,952	30,163,957
Less accumulated depreciation	(25,128,968)	(24,668,457)
Totals	<u>\$5,175,984</u>	<u>\$ 5,495,500</u>

This year's additions of \$140,995 included building renovations to the high school pool and bus garage. The Sinking Fund levy was used for these additions.

We anticipate capital additions for the 2005-2006 fiscal year will be comparable to the 2004-2005 fiscal year. We present more detailed information about our capital assets in the notes to the financial statements.

Management's Discussion and Analysis (Unaudited) (Continued)

Debt

At the end of this year, the School District had \$3,792,456 in bonds and notes outstanding as depicted in Table 5 below.

Table 5 Outstanding Debt at Year End		
	Governmental Activities – 2005	Governmental Activities – 2004
General obligation bonds	\$3,640,000	\$3,740,000
Durant Debt	118,112	118,112
Vehicle notes	34,344	65,205
Totals	\$3,792,456	\$3,923,317

There was one new addition to debt this year whereby 2005 Refunding Bonds were issued to refund a portion of the 1997 General Obligation Bonds. We present more detailed information about our long-term debt in the notes to the financial statements.

Economic Factors and Next Year's Budgets

Our elected officials and administration consider many factors when setting the School District's fiscal year 2006 budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The 2006 fiscal year budget was adopted in June 2005, based on an estimate of students that will be enrolled in September 2005. Approximately 75 percent to 80 percent of total General Fund revenues is from the foundation allowance. Under State law, the School District cannot access additional property tax revenue for general obligations. As a result, the district funding is heavily dependent on the State's ability to fund local school operations. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget, if actual district resources are not sufficient to fund original appropriations.

Contacting the School District's Financial Management

This financial report is designated to provide the School District's citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Ishpeming City School District Administration, 319 E. Division Street, Ishpeming, Michigan 49849.

Ishpeming City School District
Statement of Net Assets
June 30, 2005

	Governmental Activities
ASSETS:	
Current assets:	
Cash and cash equivalents	\$ 1,266,689
Investments	62,031
Receivables:	
Accounts receivable	2,697
Due from other governmental units	1,480,639
Inventories	1,772
Prepaid expenses	12,478
	<hr/>
TOTAL CURRENT ASSETS	2,826,306
	<hr/>
Noncurrent assets:	
Unamortized bond issue costs	44,711
Capital assets	30,304,952
Less accumulated depreciation	(25,128,968)
	<hr/>
TOTAL NONCURRENT ASSETS	5,220,695
	<hr/>
TOTAL ASSETS	8,047,001
	<hr/>
LIABILITIES:	
Current liabilities:	
Accounts payable	26,527
Accrued payroll and other liabilities	437,738
Due to other governmental units	197,849
Deferred revenue	119,540
State aid notes payable	885,000
Current portion of bonds payable	153,949
Current portion of notes payable	17,333
	<hr/>
TOTAL CURRENT LIABILITIES	1,837,936
	<hr/>
Noncurrent liabilities:	
Noncurrent portion of employee benefit obligations	292,851
Noncurrent portion of bonds payable	3,604,163
Less deferred loss on refunding bonds	(24,755)
Noncurrent portion of notes payable	17,011
	<hr/>
TOTAL NONCURRENT LIABILITIES	3,889,270
	<hr/>
TOTAL LIABILITIES	5,727,206
	<hr/>
NET ASSETS:	
Invested in capital assets net of related debt	1,501,640
Restricted:	
Debt Service	46,883
Scholarships	152,006
Unrestricted	619,266
	<hr/>
TOTAL NET ASSETS	\$ 2,319,795
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See Notes to Financial Statements.

**Ishpeming City School District
Statement of Activities
For the Year Ended June 30, 2005**

Function / Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
Instruction	\$ 5,280,906	\$ 385,794	\$ 1,170,305	\$ (3,724,807)
Supporting services	2,598,635	-	58,310	(2,540,325)
Community services	18,614	-	-	(18,614)
Other governmental units and transactions	509,628	-	19,090	(490,538)
Food service activities	295,383	99,879	150,190	(45,314)
Athletic activities	197,662	74,782	20,651	(102,229)
Interest on retirement of debt	299,739	-	-	(299,739)
Depreciation- unallocated	460,511	-	-	(460,511)
TOTAL GOVERNMENTAL ACTIVITIES	9,661,078	560,455	1,418,546	(7,682,077)
General revenues:				
Taxes				
Property taxes, levied for general purposes				544,202
Property taxes, levied for debt services				337,657
Property taxes, levied for building and site fund				151,542
State Aid not restricted to specific purposes				5,773,899
Interest and investment earnings				24,651
Miscellaneous				166,678
TOTAL GENERAL REVENUES AND TRANSFERS				6,998,629
			CHANGES IN NET ASSETS	(683,448)
Net Assets , July 1				3,003,243
			NET ASSETS, JUNE 30	\$ 2,319,795

See Notes to Financial Statements.

**Ishpeming City School District
Governmental Funds
Balance Sheet
June 30, 2005**

	General Fund	Other Nonmajor Governmental Funds	Total
ASSETS:			
Cash and cash equivalents	\$ 848,758	\$ 417,931	\$ 1,266,689
Investments	-	62,031	62,031
Receivables:			
Accounts receivable	2,697	-	2,697
Due from other governmental units	1,478,922	1,717	1,480,639
Due from other funds	194,547	92,993	287,540
Inventories	-	1,772	1,772
Prepaid expenditures	12,478	-	12,478
TOTAL ASSETS	<u>\$ 2,537,402</u>	<u>\$ 576,444</u>	<u>\$ 3,113,846</u>
LIABILITIES AND FUND BALANCES:			
LIABILITIES:			
Accounts payable	\$ 26,527	\$ -	\$ 26,527
Accrued liabilities	437,738	-	437,738
Due to other governmental units	197,849	-	197,849
Due to other funds	92,993	194,547	287,540
Deferred revenue	119,540	-	119,540
State aid notes payable	885,000	-	885,000
TOTAL LIABILITIES	<u>1,759,647</u>	<u>194,547</u>	<u>1,954,194</u>
FUND BALANCES:			
Reserved	414,115	376,897	791,012
Unreserved, reported in:			
General Fund	363,640	-	363,640
Special Revenue Funds	-	5,000	5,000
TOTAL FUND BALANCES	<u>777,755</u>	<u>381,897</u>	<u>1,159,652</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2,537,402</u>	<u>\$ 576,444</u>	<u>\$ 3,113,846</u>

See Notes to Financial Statements.

**Ishpeming City School District
Governmental Funds
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2005**

Total Fund Balances for Governmental Funds	\$	1,159,652
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*Amounts reported for governmental activities in the statement
of net assets are different because:*

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds.

	Cost of capital assets	30,304,952
	Accumulated depreciation	<u>(25,128,968)</u>
		5,175,984

Unamortized bond issue costs are not financial resources and therefore are not reported in the funds.		44,711
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Long-term liabilities are not due and payable in the current period and are
not reported in the funds. Long-term liabilities at year-end consist of:

Bonds payable - current portion	153,949	
Bonds payable - long-term portion	3,604,163	
Deferred loss on refunding bonds	(24,755)	
Notes payable - current portion	17,333	
Notes payable - long-term portion	17,011	
Employee benefit obligations	<u>292,851</u>	
		(4,060,552)

NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u>2,319,795</u>
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See Notes to Financial Statements.

Ishpeming City School District
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2005

	General Fund	Other Nonmajor Governmental Funds	Total
REVENUES:			
Revenues from local sources	\$ 731,870	\$ 724,543	\$ 1,456,413
Revenues from State sources	6,545,463	17,345	6,562,808
Revenues from Federal sources	417,831	132,845	550,676
Other	-	-	-
TOTAL REVENUES	7,695,164	874,733	8,569,897
EXPENDITURES:			
Current:			
Instruction	5,460,359	-	5,460,359
Supporting services	2,570,077	480,932	3,051,009
Community services	18,614	-	18,614
Debt Service:			
Principal	-	125,000	125,000
Interest	-	103,217	103,217
Capital outlay	16,540	160,048	176,588
Other	-	76,826	76,826
TOTAL EXPENDITURES	8,065,590	946,023	9,011,613
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(370,426)	(71,290)	(441,716)
OTHER FINANCING SOURCES (USES):			
Payments from other governmental units	385,794	-	385,794
Payments from other sources	3,413	-	3,413
Transfers in	-	151,898	151,898
Proceeds on sale of bonds	-	3,365,000	3,365,000
Premium on sale of bonds	-	18,526	18,526
Payments to escrow agent	-	(3,504,500)	(3,504,500)
Transfers out	(151,898)	-	(151,898)
Payments to other governmental units	(173,489)	-	(173,489)
Other transactions	(383,609)	-	(383,609)
TOTAL OTHER FINANCING SOURCES (USES)	(319,789)	30,924	(288,865)
NET CHANGE IN FUND BALANCES	(690,215)	(40,366)	(730,581)
Fund Balance, July 1	1,467,970	422,263	1,890,233
FUND BALANCE, JUNE 30	\$ 777,755	\$ 381,897	\$ 1,159,652

See Notes to Financial Statements.

**Ishpeming City School District
Governmental Funds
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures
and Changes in Fund Balance to the Statement of Activities
For the Year Ended June 30, 2005**

Net Change in Fund Balances - Total Governmental Funds **\$ (730,581)**

*Amounts reported for governmental activities in the statement
of activities are different because:*

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Depreciation expense	460,511	
Capital outlays	<u>(140,995)</u>	(319,516)

Proceeds from debt issues are an other financing source in the funds, but a debt issue increases long-term liabilities in the statement of net assets. (3,365,000)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 3,495,861

Deferred loss on refunding bonds is reported as expenditures in the governmental funds when incurred. However, for governmental activities those costs are shown in the statement of net assets and amortized over the life of the bond issuance as other costs in the statement of activities. 24,755

Unamortized bond issue costs are reported as expenditures in the governmental funds when incurred. However, for governmental activities those costs are shown in the statement of net assets and amortized over the life of the bond issuance as other costs in the statement of activities. 44,711

Some expense reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 166,322

Change in Net Assets of Governmental Activities	\$	<u>(683,448)</u>
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**Ishpeming City School District
Fiduciary Funds
Statement of Fiduciary Net Assets
June 30, 2005**

	<u>Agency Funds</u>	<u>Private-Purpose Trust Funds</u>
	<u>Student Activity Fund</u>	<u>Auditorium Fund</u>
ASSETS:		
Cash and equivalents	\$ 52,432	\$ 12,029
TOTAL ASSETS	<u>\$ 52,432</u>	<u>12,029</u>
LIABILITIES:		
Accounts payable	\$ -	2,960
Due to groups, organizations and activities	52,432	-
TOTAL LIABILITIES	<u>\$ 52,432</u>	<u>2,960</u>
NET ASSETS:		
Held in trust for individuals, organizations, and other governments		9,069
TOTAL NET ASSETS		<u>\$ 9,069</u>

See Notes to Financial Statements.

**Ishpeming City School District
Fiduciary Funds
Statement of Changes in Fiduciary Net Assets
For the Year Ended June 30, 2005**

	<u>Private-Purpose Trust Fund</u>
	<u>Auditorium Fund</u>
ADDITIONS:	
Contributions:	
Gifts, bequests and endowments	\$ 9,586
Total Contributions	<u>9,586</u>
Investment Income:	
Interest and dividends	<u>187</u>
Net Investment Income (Loss)	<u>187</u>
TOTAL ADDITIONS (DEDUCTIONS)	<u>9,773</u>
DEDUCTIONS:	
Payments in accordance with trust agreements	<u>15,578</u>
TOTAL DEDUCTIONS	<u>15,578</u>
CHANGE IN NET ASSETS	(5,805)
Net assets, beginning of year	<u>14,874</u>
NET ASSETS, END OF YEAR	<u><u>\$ 9,069</u></u>

See Notes to Financial Statements.

ISHPEMING CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Ishpeming City School District was organized in 1869. The School District operates under a Board-Superintendent form of government. The accounting policies of the Ishpeming City School District conform to accounting principles generally accepted in the United States of America as applicable to school districts. The following is a summary of the more significant policies:

Financial Reporting Entity

In evaluating how to define the School District, for financial reporting purposes, management has considered all potential component units by applying the criteria set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*. The basic but not the only criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the School District and/or its constituents, or whether the activity is conducted within the geographic boundaries of the School District and is generally available to its constituents. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financial relationships, regardless of whether the School District is able to exercise oversight responsibilities.

Based upon the application of these criteria, the basic financial statements of the Ishpeming City School District contain all the funds controlled by the District's Board of Education as no other entity meets the criteria to be considered a component unit of the School District nor is the School District a component unit of another entity.

BASIS OF PRESENTATION

District-Wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the School District as a whole. They include all funds of the School District except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through State sources, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. All of the School District's district-wide activities are considered to be governmental activities.

Fund Financial Statements:

The accounts of the School District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

equity, revenues, and expenditures. The available resources are allocated to and accounted for in the individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the financial statements in this report into two major fund categories: governmental and proprietary categories. An emphasis is placed on major funds within the governmental and proprietary categories. The General Fund is always considered a major fund and the remaining funds of the School District are considered major if it meets the following criteria:

- a. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The School District reports the General Fund as its only major governmental fund in accordance with the above criteria. The funds of the School District are described below:

Governmental Fund Types

General Fund - The General Fund is the general operating fund and accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the activities of specific school service revenue sources such as the School Service, Athletics, and Scholarship Funds.

Debt Retirement Funds - Debt Retirement Funds are used to record tax, state aid and interest revenue for the payment of general long-term debt principal, interest, and related costs.

Capital Projects Funds - Capital Projects Funds are used to record bond proceeds or other revenue to be used for the acquisition or construction of major capital facilities or other capital assets, including equipment.

Fiduciary Fund Types

Trust and Agency Fund - The Trust and Agency Fund is used to account for assets held by the School District in a trustee capacity or as an agent for individuals, organizations, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Auditorium Fund - The Auditorium Fund is a private-purpose trust fund used to account for assets held by the School District in a trustee capacity for operations of the Auditorium.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Measurement Focus

On the district-wide Statement of Net Assets and the Statement of Activities, governmental activities are presented using the economic resource measurement focus as defined in item (a) below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

- a.** All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable resources at the end of the period.

Basis of Accounting

In the district-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the accrual basis of accounting. Also, the proprietary fund financial statements are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year-end. Expenditures, including capital outlay, are recorded when the related liability is incurred, except for principal and interest on general long-term debt and accrued compensated absences, which are reported when due.

Cash and Equivalents

The District considers cash and cash equivalents to be cash on hand, demand deposits and certificates of deposit.

Due From and To Other Funds

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

Inventory

The School District utilizes the consumption method of recording inventories of materials and food supplies. Under the consumption method, inventories are recorded as expenditures when they are used. The inventory is valued at the lower of cost (first-in, first-out) or market.

Capital Assets

Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 and any assets susceptible to theft. Such assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

valued at their estimated fair value on the date donated. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure-type assets.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings and additions	20 – 50 years
Buses and other vehicles	5 – 10 years
Furniture and other equipment	5 – 10 years

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the district-wide financial statements.

Long-Term Liabilities

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest are reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the district-wide statements.

Compensated Absences

The School District' policies regarding compensated absences permits employees to accumulate earned but unused sick leave. The liability for these compensated absences is recorded as long-term debt in the district-wide statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources.

Deferred Revenues

In the district-wide statements, deferred revenue is recognized when cash, receivables or other assets are received prior to their being earned. In the governmental fund statements, deferred revenue is recognized when revenue is unearned or unavailable.

Equity Classification

District-Wide Statements

Equity is classified as net assets and displayed in three components:

- a. Invested in Capital Assets, Net of Related Debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

- b. Restricted Net Assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions of enabling legislation.
- c. Unrestricted Net Assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated, if appropriate.

Revenues

District-Wide Statements

In the district-wide Statement of Activities, revenues are segregated by activity (governmental or business-type), and are classified as either a program revenue or a general revenue. Program revenues include charges to customers or applicants for goods or services, operating grants and contributions and capital grants and contributions. General revenues include all revenues, which do not meet the criteria of program revenues and include revenues such as State funding and interest earnings.

Fund Statements

In the governmental fund statements, revenues are reported by source, such as federal sources, state sources and charges for services. Revenues consist of general purpose revenues and restricted revenues. General purpose revenues are available to fund any activity reported in that fund, while restricted revenues are available for a specific purpose or activity and the restrictions are typically required by law or a grantor agency. When both general purpose and restricted revenues are available for use, it is the School District’s policy to use the restricted resources first.

Expenses/Expenditures

District-Wide Statements

In the district-wide Statement of Activities, expenses are segregated by activity (governmental or business-type), and are classified by function.

Fund Statements

In the governmental fund financial statements, expenditures are classified by character such as current operations, debt service and capital outlay.

OTHER SIGNIFICANT ACCOUNTING POLICIES

Budgets and Budgetary Accounting

The School District follows these procedures in establishing the budgetary data reflected in the financial statements.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

1. The Superintendent submits to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is approved by the Board of Education.
4. Budgets for all governmental fund types are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Budgeted amounts are as approved and amended by the Board of Education.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the general-purpose financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Encumbrances

Appropriations in governmental funds are encumbered upon the issuance of purchase orders, contracts or other forms of legal commitments. Encumbrances outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities in the year the commitment is made.

Property Taxes

Property tax revenue is recognized in the year for which taxes have been levied, provided they are available to finance expenditures of the current period in accordance with the National Council on Governmental Accounting Interpretation No. 3, Revenue Recognition - Property Taxes.

Property taxes attach as an enforceable lien on property as of December 31. Taxes are levied on August 1 and payable by September 14. The City of Ishpeming bills and collects the property taxes for the School District.

The School District voters authorized the School District to levy the following mileages for the 2004-2005 school year:

On nonresidential property, a total of 18 mills was approved for general operating expenditures on properties with a total taxable value of \$28,810,733.

On all residential and commercial property, 2.0 mills was levied out of a total of 4.5 mills approved for a Building Sinking Fund on properties with a total taxable value of \$80,398,808.

On all residential and commercial property, a total of 4.1 mills was approved for the purpose of retiring long-term obligations on properties with a total taxable value of \$80,398,808.

NOTE B – DEPOSITS AND INVESTMENTS:

Cash Equivalents

As of June 30, 2005, the District's cash and cash equivalents and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and equivalents	\$1,266,689	\$64,461	\$1,331,150
Investments	62,031	-	62,031
	<u>\$1,328,720</u>	<u>\$64,461</u>	<u>\$1,393,181</u>

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State law does not require and the District does not have a deposit policy for custodial credit risk. As of June 30, 2005, \$1,280,085 of the District's bank balance of \$1,422,836 was exposed to custodial credit risk as being uninsured and uncollateralized.

Investments

As of June 30, 2005, the District had the following investments.

Investment Type	Fair Value	Investment in Maturities (In Years)			
		Less Than 1	1-5	6-10	More Than 10
Michigan Liquid Asset Fund – Mutual Funds	\$44,304	\$44,304	\$ -	\$ -	\$ -
General Motors – Corporate fixed income	17,727	-	-	17,727	-
Totals	<u>\$62,031</u>	<u>\$44,034</u>	<u>\$ -</u>	<u>\$17,727</u>	<u>\$ -</u>

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the District's investments. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Michigan statutes authorize the District to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposits, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC and authorized to operate in this state, commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures within 270 days from date of purchase, bankers' acceptances of the United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds. Michigan law prohibits security in the form of collateral, surety bond, or another form for the deposit of public money.

The District has no investment policy that would further limit its investment choices. The District's investment in General Motors Corporate Fixed Income was rated BAA2 by Moody's Investors Service and BB by Standard & Poor's. Ratings are not required for the District's investment in Michigan Liquid Asset Fund-Mutual Funds. The District's investments are in accordance with statutory authority.

NOTE B – DEPOSITS AND INVESTMENTS (Continued):*Concentration of Credit Risk*

The District places no limit on the amount the District may invest in any one issuer. More than 5 percent of the District's investments are in the General Motors Corporate Fixed Income. These investments are 29% of the District's total investments.

NOTE C – DUE FROM OTHER GOVERNMENTAL UNITS:

Amounts due from other governmental units consist of various revenues due from federal and state sources for the operation of special programs and grant projects.

NOTE D – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS:

Amounts due from (to) other funds represent the balance of monies due from or to other funds for expenditures made or fund balance transfers approved.

The amounts of interfund receivables and payables as of June 30, 2005 are as follows:

Fund	Interfund Receivable	Fund	Interfund Payable
General	\$194,547	School Lunch	\$146,698
		Athletics	32,380
		Building Sinking	15,469
Subtotal	194,547	Subtotal	194,547
School Lunch	92,993	General	92,993
Total	\$287,540	Total	\$287,540

The amounts transferred to and from individual funds for the year ended June 30, 2005 are as follows:

Fund	Transfers In	Fund	Transfers Out
School Lunch	\$44,799	General	\$151,898
Athletics	107,099		
Total	\$151,898	Total	\$151,898

NOTE E – CAPITAL ASSETS:

Capital asset activity of the School District's governmental activities was as follows:

	Balance 6/30/04	Additions/ Adjustments	Deductions	Balance 6/30/05
Capital assets not being depreciated:				
Land	\$14,401	\$-	\$-	\$14,401
Construction in progress	-	9,166	-	9,166
Capital assets being depreciated:				
Land improvement	194,700	-	-	194,700
Buildings and additions	26,979,062	131,829	-	27,110,891
Machinery and equipment	2,327,496	-	-	2,327,496
Vehicles/buses	648,298	-	-	648,298
Total Capital Assets	30,163,957	140,995	-	30,304,952

NOTE E – CAPITAL ASSETS (Continued):

	Balance 6/30/04	Additions/ Adjustments	Deductions	Balance 6/30/05
Less accumulated depreciation:				
Land improvement	\$79,255	\$8,135	\$-	\$87,390
Buildings and additions	21,935,695	330,490	-	22,266,185
Machinery and equipment	2,120,346	83,040	-	2,203,386
Vehicles/buses	533,161	38,846	-	572,007
Total Accumulated Depreciation	24,668,457	460,511	-	25,128,968
CAPITAL ASSETS, NET	\$5,495,500	\$(319,516)	\$-	\$5,175,984

Depreciation expense charged to governmental activities was \$460,511.

NOTE F – ACCRUED EMPLOYEE BENEFITS:

Upon severing employment with the District, an employee has the option of selecting one of the following as severance pay:

1. Unused sick leave to be paid at \$35.00 per day up to a maximum of \$4,800 per employee.
2. An employee who has been employed for ten years or more shall be paid one week of current salary plus one day of current salary for each year of employment of the District in excess of ten years to a maximum of \$1,500.

As of June 30, 2005, the accrued employee benefits reported in the Statement of Net Assets is \$292,851.

NOTE G – RESERVED FUND EQUITY:

The School District reserves fund equities for the following funds:

General Fund – The resources of the General Fund have been accumulated for the following specific purposes:

Energy Conservation Funds	\$67,570
1.33 Mill Funds	53,694
Accumulated Retirement	122,196
Accumulated Sick Leave	170,655
	<u>\$414,115</u>

Special Revenue Funds – The resources of the Scholarship Fund have been accumulated for the specific purpose of granting scholarship to graduating students. The fund equities of \$152,006 are reserved for these purposes.

Debt Service Funds – The resources of the Debt Service Funds have been accumulated for the specific purpose of bond and interest debt retirement. The fund equities of \$46,883 are reserved for these purposes.

Capital Projects Funds – The resources of the Capital Projects Funds have been accumulated for the specific purpose of acquiring fixed assets. The fund equities of \$178,008 are reserved for these purposes.

NOTE H – LONG-TERM DEBT:

The following is a summary of the long-term debt activity for the year ending June 30, 2005:

	Balance 7/1/04	Additions	Deductions	Balance 6/30/05
1997 Serial Bonds	\$3,740,000	\$-	\$3,465,000	\$275,000
2005 Refunding Bonds	-	3,365,000	-	3,365,000
Durant Bonds	118,112	-	-	118,112
Vehicle Loans Payable	65,205	-	30,861	34,344
Employee Benefits Payable	459,173	12,395	178,717	292,851
TOTAL	\$4,382,490	\$3,377,395	\$3,674,578	\$4,085,307

Long-term debt at June 30, 2005 consists of the following:

INSTALLMENT NOTES FOR VEHICLE AND BUS PURCHASES**June 30, 2005**

Date	Original Amount	Interest Rate	Monthly Payment	Principal	Interest	Total
07/20/00	\$51,779	5.33%	\$986.89	\$852	\$4	\$856
08/09/02	51,075	4.5%	953.74	22,625	1,124	23,749
04/16/04	17,406	3.75%	512.00	10,867	396	11,263
				<u>\$34,344</u>	<u>\$1,524</u>	<u>\$35,868</u>

**1997 General Obligation
School Building and Site Bonds
June 30, 2005**

School Year	November 1 Interest	May 1		Total
		Interest	Principal	
2005-2006	\$7,012	\$7,012	\$135,000	\$149,024
2006-2007	3,570	3,570	140,000	147,140
Totals	<u>\$10,582</u>	<u>\$10,582</u>	<u>\$275,000</u>	<u>\$296,164</u>

General Obligation School Building and Site Serial Bonds originally issued for \$4,300,000 and dated November 1, 1997 mature annually on May 1, 1999 through May 1, 2022 and bear interest at a rate of 5.0% to 5.125% per annum. Interest is paid semi-annually on May 1 and November 1 each year.

The callable portion of these bonds maturing May 1, 2008 through May 1, 2022 were refunded with the 2005 refunding bonds. The non-call portion maturing May 1, 2006 through May 1, 2007 remains outstanding.

**2005 Refunding Bonds
June 30, 2005**

School Year	November 1 Interest	May 1		Total
		Interest	Principal	
2005-2006	\$68,805	\$67,677	\$10,000	\$146,482
2006-2007	67,527	67,528	10,000	145,055
2007-2008	67,377	67,378	160,000	294,755
2008-2009	64,977	64,978	170,000	299,955
2009-2010	62,002	62,003	180,000	304,005
2011-2015	257,060	257,065	1,015,000	1,529,125
2016-2020	142,826	142,831	1,250,000	1,535,657
2021-2022	18,490	18,490	570,000	606,980
Totals	<u>\$749,064</u>	<u>\$747,950</u>	<u>\$3,365,000</u>	<u>\$4,862,014</u>

NOTE H – LONG-TERM DEBT (Continued):

On April 28, 2005, the District issued \$3,365,000 in General Obligation Bonds with an average interest rate of 4.2% to advance refund \$3,340,000 of outstanding 1997 Serial Bonds with an average interest rate of 5.1%. The net proceeds of \$3,307,500 (after payment of \$57,500 in underwriting fees, insurance, and other issuance costs) plus an additional \$197,000 of 1997 series Debt Fund monies were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1997 series bonds. As a result, the 1997 series bonds are considered to be defeased and the liability for those bonds has been removed from the government-wide statement of net assets.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$25,000. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2022 using the effective-interest method. The District completed the advance refunding to reduce its total debt service payments over the next 17 years by \$440,107 and to obtain an economic gain (difference between the present value of the old and new debt service payments) of \$337,265.

DURANT SCHOOL IMPROVEMENT BONDS**SERIES 1998****June 30, 2005**

School Year	Interest	Principal	Total
2005-2006	\$4,034	\$8,949	\$12,983
2006-2007	3,608	9,373	12,981
2007-2008	3,162	9,821	12,983
2008-2009	2,694	10,289	12,983
2009-2010	2,204	10,778	12,982
2011-2013	18,327	68,902	87,229
	<u>\$34,029</u>	<u>\$118,112</u>	<u>\$152,141</u>

The School Improvement Bonds, Series 1998 (\$184,877) dated November 24, 1998 mature annually on May 15 with interest at a rate of 4.75% per annum. The only revenue source for making the debt service payment on these School Improvement Bonds is an appropriation from the State of Michigan. If the legislature fails to appropriate the funds, the School District is under no obligation for payment.

As of June 30, 2005 the aggregate maturities of long-term debt for the next succeeding five years are as follows:

	Principal	Interest	Total
2005-2006	\$171,282	\$155,653	\$326,935
2006-2007	175,538	146,202	321,740
2007-2008	170,667	137,930	308,597
2008-2009	180,289	132,649	312,938
2009-2010	190,778	126,209	316,987
2011-2015	1,083,902	532,452	1,616,354
2016-2020	1,250,000	285,657	1,535,657
2021-2022	570,000	36,980	606,980
Employer Benefits Payable	292,851	-	292,851
TOTALS	<u>\$4,085,307</u>	<u>\$1,553,732</u>	<u>\$5,639,039</u>

NOTE I – SHORT-TERM DEBT:

The District utilizes short-term borrowing secured with pledged state aid for cash flow purposes due to the timing of state aid payments. A summary of changes in short-term debt for the year ended June 30, 2005, is as follows:

	Balance June 30, 2004	Additions	Deductions	Balance June 30, 2005
State Anticipation Note	\$ -	\$885,000	\$ -	\$885,000

NOTE J – FOUNDATION REVENUE AND CONTINGENCY RECEIVABLE AND PAYABLE:

For the fiscal year ended June 30, 1995, the State of Michigan adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state wide formula. In previous years, the state utilized a district power equalizing approach. The foundation is funded from state and local sources. Revenue from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2005, the foundation allowance was based on the average of pupil membership counts taken in February and October of 2004.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through 11 payments from October 2004 - August 2005. The local revenue is recognized as outlined in Note A - Property Taxes.

NOTE K – EXCESS OF ACTUAL EXPENDITURES OVER BUDGET IN INDIVIDUAL FUNDS:

The following funds had an excess of actual expenditures over appropriations for the year ended June 30, 2005:

	Excess Expenditures/Expenses
General Fund:	
Instruction – employee benefits	\$812
Instruction – added needs	9,966
Supporting Services – general administration	2,377
Supporting Services – other	2,430
Special Revenue Funds:	
Athletic Activities	12,045
Scholarship Fund	6,940
School Lunch Fund	32,488

NOTE L – EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN:

Substantially all of the District's employees are eligible to participate in the statewide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing public employee retirement system. Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. Employees first hired on or after January 1, 1990 will automatically be included in MIP.

NOTE L – EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Continued):

Members in MIP may retire at any age after attaining thirty years of creditable service or at age sixty while still working with a minimum total of five years of creditable service and with credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the average of the highest total earnings during a period of thirty-six consecutive calendar months (three years) multiplied by total years to the nearest tenth of a year of credited service.

Employees who did not elect the MIP option fall under the MPSERS Basic Plan and may retire after attaining age sixty with ten or more years of credited service; or with thirty or more years of credited service; or attaining age fifty-five while still working at least fifteen but fewer than thirty years of credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date.

The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five years) multiplied by the total years to the nearest tenth of a year of credited service.

The MPSERS also provides death, disability, health, medical, dental, vision and hearing insurance coverage. Benefits are established by state statute.

The District was required by state statute to contribute 12.99% of covered compensation to the Plan through September 30, 2004 and 14.87% of covered compensation for the remainder of the year. The total amount contributed to the Plan for the year ended June 30, 2005 was \$798,512 which consisted of \$674,816 from the District and \$123,696 from employees electing the MIP option. These represent approximately 14% and 3% of covered payroll, respectively.

Payroll paid to employees covered by the System for the year ended June 30, 2005 was approximately \$4,733,000. The District's total payroll was approximately \$4,971,000.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan. MPSERS' issues a publicly available financial report that includes financial statements and required supplementary information for the system. More information may be obtained by writing MPSERS at MPSERS, P.O. Box 30673, Lansing, Michigan 48929-8103.

NOTE M – CONTINGENT LIABILITIES:

Grant Assistance

The School District has received significant assistance from federal and state agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the School District.

Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The School District carries commercial insurance for all risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE N – ECONOMIC DEPENDENCY:

The School District receives approximately 84 percent of its revenues through State and Federal sources to be used for providing elementary and secondary education to the students of the Ishpeming City School District.

NOTE O – SINKING FUNDS:

The Building Sinking Fund Capital Project Fund records capital project activities funded with Sinking Fund millage. For (this) these funds, the School District has complied with the applicable provisions of §1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan.

REQUIRED FINANCIAL
INFORMATION

**Ishpeming City School District
General Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2005**

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original Budget to Final Budget	Final Budget to Actual
REVENUES:					
Local Sources	\$ 684,167	\$ 680,203	\$ 731,870	\$ (3,964)	\$ 51,667
State sources	6,449,051	6,536,900	6,545,463	87,849	8,563
Federal Sources	336,236	400,286	417,831	64,050	17,545
TOTAL REVENUES	7,469,454	7,617,389	7,695,164	147,935	77,775
EXPENDITURES:					
Instruction:					
Basic programs	3,489,730	3,737,990	3,737,676	(248,260)	314
Added needs	1,585,065	1,711,905	1,721,871	(126,840)	(9,966)
Employee benefits - instruction	-	-	812	-	(812)
Total Instruction	5,074,795	5,449,895	5,460,359	(375,100)	(10,464)
Supporting Services:					
Student services	176,033	189,371	187,993	(13,338)	1,378
Instructional staff	101,955	112,839	109,643	(10,884)	3,196
General administration	264,170	272,935	275,312	(8,765)	(2,377)
School administration	508,604	511,518	493,219	(2,914)	18,299
Business services	147,798	116,386	116,098	31,412	288
Operation and maintenance of plant	1,021,956	1,183,181	1,158,408	(161,225)	24,773
Pupil transportation	204,553	208,510	202,378	(3,957)	6,132
Other supporting services	21,461	24,596	27,026	(3,135)	(2,430)
Total Supporting Services	2,446,530	2,619,336	2,570,077	(172,806)	49,259
Community Services:					
D.A.R.E. program	-	-	-	-	-
Playground maintenance	15,000	18,675	18,614	(3,675)	61
Total Community Services	15,000	18,675	18,614	(3,675)	61
Other Expenditures:					
Capital outlay	-	16,810	16,540	(16,810)	270
TOTAL EXPENDITURES	7,536,325	8,104,716	8,065,590	(568,391)	39,126
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(66,871)	(487,327)	(370,426)	(420,456)	116,901
OTHER FINANCING SOURCES (USES):					
Payments from other governmental units	395,590	269,542	385,794	(126,048)	116,252
Payments from other sources	-	-	3,413	-	3,413
Transfers (out)	-	(121,862)	(151,898)	(121,862)	(30,036)
Payments to other governmental units	(146,518)	(122,757)	(173,489)	23,761	(50,732)
Other transactions	(598,191)	(336,550)	(383,609)	261,641	(47,059)
TOTAL OTHER FINANCING SOURCES (USES)	(349,119)	(311,627)	(319,789)	37,492	(8,162)
NET CHANGE IN FUND BALANCE	(415,990)	(798,954)	(690,215)	(382,964)	108,739
Fund Balance, July 1	1,467,970	1,467,970	1,467,970	-	-
FUND BALANCE, JUNE 30	\$ 1,051,980	\$ 669,016	\$ 777,755	\$ (382,964)	\$ 108,739

**SUPPLEMENTAL FINANCIAL
INFORMATION**

**Ishpeming City School District
General Fund
Schedule of Revenues - Budget and Actual
For the Year Ended June 30, 2005**

	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Revenue from Local Sources:			
General Fund property tax levy	\$ 535,000	\$ 538,270	\$ 3,270
Penalty and interest on taxes	5,900	5,932	32
Earnings from investments	10,500	18,351	7,851
Rental income	2,900	2,919	19
Private sources (contributions)	30,616	24,824	(5,792)
Other local revenue	95,287	141,574	46,287
Total Local Sources	680,203	731,870	51,667
Revenue from State Sources:			
State school aid - unrestricted	5,787,378	5,773,899	(13,479)
Grants Restricted:			
Low Income - Section 31.A	167,800	167,858	58
Special Education	352,900	356,015	3,115
Drivers Education	-	8,107	8,107
Vocational Education	32,934	32,027	(907)
Early Childhood Education	125,400	125,400	-
Durant Funds	18,488	-	(18,488)
Advanced and Accelerated Learning	-	139	139
Other grants received through MARESA	52,000	82,018	30,018
Total State Sources	6,536,900	6,545,463	8,563
Revenue from Federal Sources:			
Restricted - received through the state:			
E.C.I.A. Title I Grants	240,000	249,379	9,379
Technology Literacy Challenge	6,106	6,106	-
Title V LEA Allocation	2,814	2,814	-
Improving Teacher Quality	68,274	68,274	-
Restricted - received through MARESA:			
Other	76,517	84,368	7,851
Direct award - Title VII Indian Education	6,575	6,890	315
Total Federal Sources	400,286	417,831	17,545
Other Financing Sources:			
Payments received from other governmental units within the State:			
MARESA	188,242	233,737	45,495
Other	81,300	152,057	70,757
Other Sources:			
Vehicle loan proceeds	-	-	-
Other sources	-	3,413	3,413
Total Other Financing Sources	269,542	389,207	119,665
TOTAL REVENUES AND OTHER SOURCES	\$ 7,886,931	\$ 8,084,371	\$ 197,440

**Ishpeming City School District
General Fund
Schedule of Expenditures - Budget and Actual
For the Year Ended June 30, 2005**

	Final Budget	Actual	Variance Favorable (Unfavorable)
EXPENDITURES:			
Instruction:			
Basic Programs:			
Elementary:			
Salaries:			
Teachers	\$ 836,700	\$ 745,149	\$ 91,551
Substitute teachers	16,400	13,905	2,495
Employee benefits:			
Insurances	254,300	223,210	31,090
F.I.C.A. and retirement	201,252	185,429	15,823
Other	119,400	131,413	(12,013)
Purchased services:			
Travel and conferences	2,555	2,411	144
Other	8,055	7,049	1,006
Supplies, materials and other expenses:			
Teaching supplies	42,560	33,700	8,860
Textbooks	-	5,473	(5,473)
Other	13,800	12,536	1,264
Capital Outlay	260	158	102
Total Elementary	1,495,282	1,360,433	134,849
Middle School:			
Salaries:			
Teachers	705,800	798,641	(92,841)
Substitute teachers	14,500	16,357	(1,857)
Employee benefits:			
Insurances	182,000	188,985	(6,985)
F.I.C.A. and retirement	162,212	179,471	(17,259)
Other	-	15,600	(15,600)
Purchased services:			
Travel and conferences	4,900	4,599	301
Other	10,800	10,491	309
Supplies, materials and other expenses:			
Teaching supplies	12,500	15,519	(3,019)
Textbooks	-	-	-
Other	18,035	12,903	5,132
Capital Outlay	2,500	2,431	69
Total Middle School	1,113,247	1,244,997	(131,750)
High School:			
Salaries:			
Teachers	659,400	666,524	(7,124)
Substitute teachers	12,600	12,214	386
Employee benefits:			
Insurances	176,800	173,713	3,087
F.I.C.A. and retirement	192,058	191,859	199
Other	-	7,558	(7,558)
Purchased services:			
Professional and technical	3,500	3,433	67
Travel and conferences	1,100	1,002	98
Other	9,575	9,417	158

**Ishpeming City School District
General Fund
Schedule of Expenditures - Budget and Actual
For the Year Ended June 30, 2005**

	Final Budget	Actual	Variance Favorable (Unfavorable)
Supplies, materials and other expenses:			
Teaching supplies	\$ 26,750	\$ 23,386	\$ 3,364
Textbooks	-	2,725	(2,725)
High School (Continued):			
Memberships	2,100	2,050	50
Other	25,400	25,055	345
Capital Outlay	1,750	1,708	42
Total High School	1,111,033	1,120,644	(9,611)
Other Basic Programs:			
Salaries	11,000	10,481	519
Employee benefits:			
Insurances	2,000	1,938	62
F.I.C.A. and retirement	2,478	2,349	129
Purchased services:			
Rental	-	-	-
Supplies, materials and other expenses:			
Other	1,260	1,131	129
Capital outlay	6,200	1,006	5,194
Total Other Basic Programs	22,938	16,905	6,033
Total K-12 Instruction	3,742,500	3,742,979	(479)
Added Needs:			
Special Education:			
Salaries:			
Teachers	522,584	514,765	7,819
Teachers aides	150,000	130,884	19,116
Other salaries	14,250	24,511	(10,261)
Employee benefits:			
Insurances	136,217	131,668	4,549
F.I.C.A. and retirement	154,675	162,323	(7,648)
Other	-	1,094	(1,094)
Purchased services:			
Professional and technical	69,580	71,799	(2,219)
Travel and conferences	1,050	130	920
Supplies, materials and other expenses:			
Teaching supplies	6,900	6,366	534
Textbooks	-	-	-
Other	12,520	12,850	(330)
Capital Outlay	1,000	906	94
Total Special Education	1,068,776	1,057,296	11,480
Section 31.A:			
Salaries:			
Teachers	87,684	82,565	5,119
Other salaries	170	2,218	(2,048)
Employee benefits:			
Insurances	21,312	33,496	(12,184)
F.I.C.A. and retirement	19,785	19,853	(68)

**Ishpeming City School District
General Fund
Schedule of Expenditures - Budget and Actual
For the Year Ended June 30, 2005**

	Final Budget	Actual	Variance Favorable (Unfavorable)
Purchased services:			
Professional and technical	\$ 23,200	\$ 23,471	\$ (271)
Supplies, materials and other expenses:			
Teaching supplies	-	-	-
Other	-	3,333	(3,333)
Section 31A (Continued):			
Capital Outlay	-	-	-
Total Section 31.A	152,151	164,936	(12,785)
E.C.I.A. - Title I:			
Salaries:			
Teachers	154,210	151,423	2,787
Other salaries	10,825	15,806	(4,981)
Employee benefits:			
Insurances	27,065	30,488	(3,423)
F.I.C.A. and retirement	36,836	35,908	928
Purchased services:			
Contracted services	6,655	13,264	(6,609)
Travel and conferences	-	-	-
Supplies, materials and other expenses:			
Teaching supplies	30	27	3
Other	400	371	29
Capital Outlay	-	-	-
Total E.C.I.A. - Title 1	236,021	247,287	(11,266)
Title II, Part A and D Grant:			
Salaries - teachers	68,274	62,203	6,071
Purchased services:			
Contracted services	6,106	8,766	(2,660)
Travel and conferences	-	3,411	(3,411)
Supplies, materials and other expenses:			
Other	-	-	-
Title II, Part A and D Grant:	74,380	74,380	-
Vocational Education:			
Salaries:			
Teachers	106,000	105,250	750
Other salaries	1,050	957	93
Employee benefits:			
Insurances	29,200	27,866	1,334
F.I.C.A. and retirement	24,107	23,801	306
Purchased services:			
Contracted services	1,000	920	80
Travel and conferences	2,750	1,646	1,104
Building rental	3,800	3,773	27
Supplies, materials and other expenses:			
Teaching supplies	12,150	7,917	4,233
Other supplies	400	6,146	(5,746)

**Ishpeming City School District
General Fund
Schedule of Expenditures - Budget and Actual
For the Year Ended June 30, 2005**

	Final Budget	Actual	Variance Favorable (Unfavorable)
Other	\$ 1,120	\$ 602	\$ 518
Capital Outlay	3,000	2,252	748
Total Vocational Education	184,577	181,130	3,447
Total Unallocated Employee Benefits - Instruction	-	812	(812)
TOTAL INSTRUCTION	5,458,405	5,468,820	(10,415)

Supporting Services:

Student Services:

Guidance:

Salaries - guidance personnel	63,013	62,460	553
Employee benefits:			
Insurances	14,466	14,331	135
F.I.C.A. and retirement	27,108	26,805	303
Other	-	110	(110)
Purchased services:			
Contracted services	100	95	5
Travel and conferences	150	109	41
Supplies, materials and other expenses:			
Miscellaneous supplies	30	22	8
Capital Outlay	-	-	-
Total Guidance Services	104,867	103,932	935

Health:

Salaries - school nurse	55,500	55,213	287
Employee benefits:			
Insurances	14,455	14,570	(115)
F.I.C.A. and retirement	12,499	12,315	184
Other	-	109	(109)
Purchased services:			
Contracted services	1,075	1,000	75
Travel and conferences	275	271	4
Communications	200	179	21
Supplies, materials and other expenses:			
Medical supplies	500	338	162
Other	-	66	(66)
Total Health Services	84,504	84,061	443
Total Student Services	189,371	187,993	1,378

Instructional Staff:

Library:

Salaries:

Librarian	44,500	44,255	245
Aides	23,500	22,366	1,134
Employee benefits:			
Insurances	15,460	14,686	774
F.I.C.A. and retirement	15,314	14,886	428
Other	-	109	(109)

**Ishpeming City School District
General Fund
Schedule of Expenditures - Budget and Actual
For the Year Ended June 30, 2005**

	Final Budget	Actual	Variance Favorable (Unfavorable)
Purchased services:			
Travel and conferences	\$ 3,915	\$ 3,705	\$ 210
Supplies, materials and other expenses:			
Library books	9,575	6,998	2,577
Periodicals and paperbacks	-	2,165	(2,165)
Miscellaneous	575	473	102
Capital outlay	-	-	-
Total Library	112,839	109,643	3,196
Total Instructional Staff	112,839	109,643	3,196
General Administration:			
Board of Education:			
Salaries - election inspectors	-	585	(585)
Purchased services:			
Legal fees	9,000	8,765	235
Auditing services	7,500	7,350	150
Appraisal and architectural fees	-	5,209	(5,209)
Contracted services	18,100	9,149	8,951
Printing and publishing	100	-	100
Supplies, materials and other expenses:			
Dues and memberships	3,000	2,862	138
Other	2,175	4,609	(2,434)
Total Board of Education	39,875	38,529	1,346
Executive Administration:			
Salaries:			
Superintendent	89,672	89,672	-
Secretarial	47,000	48,174	(1,174)
Employee benefits:			
Insurances	30,500	31,416	(916)
F.I.C.A. and retirement	30,778	30,297	481
Other	-	1,465	(1,465)
Purchased services:			
Travel and conferences	4,400	4,257	143
Printing and publishing	12,500	12,063	437
Other	4,650	6,886	(2,236)
Supplies, materials and other expenses:			
Office supplies	10,910	9,710	1,200
Dues and memberships	1,800	1,735	65
Other	850	1,108	(258)
Capital outlay	-	-	-
Total Executive Administration	233,060	236,783	(3,723)
Total General Administration	272,935	275,312	(2,377)

**Ishpeming City School District
General Fund
Schedule of Expenditures - Budget and Actual
For the Year Ended June 30, 2005**

	Final Budget	Actual	Variance Favorable (Unfavorable)
School Administration:			
Office of the Principal:			
Salaries:			
Principals	\$ 201,504	\$ 200,590	\$ 914
Secretaries	115,500	118,499	(2,999)
Employee benefits:			
Insurances	111,200	93,765	17,435
F.I.C.A. and retirement	71,389	67,962	3,427
Other	-	1,060	(1,060)
Purchased services:			
Travel	305	233	72
Conferences and workshops	400	353	47
Printing and publishing	3,150	3,020	130
Office of the Principal (Continued):			
Supplies, materials and other expenses:			
Office supplies	5,895	5,677	218
Dues and memberships	1,700	1,596	104
Other	475	464	11
Capital outlay	700	622	78
Total Office of the Principal	512,218	493,841	18,377
Business:			
Fiscal Services:			
Salaries:			
Business manager	35,000	34,917	83
Secretarial	30,304	31,081	(777)
Employee benefits:			
Insurances	26,050	25,651	399
F.I.C.A. and retirement	14,707	14,089	618
Other	-	265	(265)
Purchased services:			
Travel and conferences	250	226	24
Printing and publishing	-	46	(46)
Insurance	-	-	-
Equipment rental	8,300	8,185	115
Supplies, materials and other expenses:			
Office supplies	-	1,034	(1,034)
Other	1,775	604	1,171
Capital outlay	-	-	-
Total Fiscal Services	116,386	116,098	288
Operations and Maintenance of Plant:			
Salaries:			
Custodial	352,672	313,776	38,896
Maintenance personnel	-	44,335	(44,335)
Employee benefits:			
Insurances	141,150	116,684	24,466
F.I.C.A. and retirement	67,492	79,303	(11,811)
Other	-	19,918	(19,918)

**Ishpeming City School District
General Fund
Schedule of Expenditures - Budget and Actual
For the Year Ended June 30, 2005**

	Final Budget	Actual	Variance Favorable (Unfavorable)
Purchased services:			
Heating fuel - gas	\$ 215,000	\$ 202,505	\$ 12,495
Electricity	139,000	129,496	9,504
Water and sewer	20,595	19,453	1,142
Trash disposal	15,975	13,452	2,523
Telephone	26,900	26,723	177
Insurance	21,300	20,839	461
Contracted services - building	14,040	5,152	8,888
Contracted services - equipment	62,875	60,479	2,396
Supplies, materials and other expenses:			
Gas, oil and grease	1,800	1,796	4
Vehicle repair parts	1,200	1,141	59
Supplies and materials	90,207	89,595	612
Other	12,975	13,761	(786)
Capital outlay	7,600	7,457	143
Total Operation and Maintenance of Plant	<u>1,190,781</u>	<u>1,165,865</u>	<u>24,916</u>
Pupil Transportation:			
Salaries:			
Bus drivers	107,200	94,437	12,763
Other	-	5,521	(5,521)
Employee benefits:			
Insurances	8,310	4,858	3,452
F.I.C.A. and retirement	27,600	26,541	1,059
Other	-	3,270	(3,270)
Purchased services:			
Insurance	7,500	6,968	532
Supplies, materials and other expenses:			
Gas, oil and grease	18,000	17,060	940
Tires and batteries	3,500	3,266	234
Vehicle repair parts	8,000	8,381	(381)
Repair and maintenance	16,000	20,239	(4,239)
Other	12,400	11,837	563
Capital outlay	-	-	-
Total Pupil Transportation	<u>208,510</u>	<u>202,378</u>	<u>6,132</u>
Support Services - Other:			
Salaries	20,075	20,022	53
Employee benefits:			
Insurances	-	3,611	(3,611)
F.I.C.A. and retirement	4,521	3,393	1,128
Other	-	-	-
Purchased services:			
Other	-	-	-
Total Support Services - Other	<u>24,596</u>	<u>27,026</u>	<u>(2,430)</u>
TOTAL SUPPORTING SERVICES	<u>2,627,636</u>	<u>2,578,156</u>	<u>49,480</u>

**Ishpeming City School District
General Fund
Schedule of Expenditures - Budget and Actual
For the Year Ended June 30, 2005**

	Final Budget	Actual	Variance Favorable (Unfavorable)
Community Services:			
Purchased services:			
D.A.R.E. program	\$ -	\$ -	\$ -
Playground maintenance	18,675	18,614	61
TOTAL COMMUNITY SERVICES	18,675	18,614	61
TOTAL EXPENDITURES	8,104,716	8,065,590	39,126
Other Financing Uses:			
Transfers out:			
Athletics	121,862	107,099	14,763
School lunch fund	-	44,799	(44,799)
Scholarship fund	-	-	-
Total Transfers Out	121,862	151,898	(30,036)
Payments to Other Governmental Units:			
Vocational Education Tuition	24,546	63,460	(38,914)
N.M.U. Dual Enrollments	27,000	26,416	584
M.A.R.E.S.A.	8,300	8,201	99
Special Education - NICE and Negaunee	40,000	50,535	(10,535)
Social Worker - NICE	19,676	23,387	(3,711)
Other	3,235	1,490	1,745
Total Payments to Other Governmental Units	122,757	173,489	(50,732)
Other Transactions:			
Safe and Drug Free Schools Grant	2,991	2,992	(1)
Carl Perkins Grant	5,526	5,526	-
Gifted and Talented Grant	23,862	20,523	3,339
Excellence in Education	7,875	6,810	1,065
Title V, Innovative Program Grant	2,814	2,814	-
Taxes Written Off	5,500	5,364	136
Payment on Bus Loans	28,000	26,897	1,103
Other Loan Payments	-	23,637	(23,637)
Early Childhood Grant	125,400	161,312	(35,912)
Partnership Grant	-	841	(841)
Technology	130,082	122,642	7,440
Other	4,500	4,251	249
Total Other Transactions	336,550	383,609	(47,059)
TOTAL OTHER FINANCING USES	581,169	708,996	(127,827)
TOTAL EXPENDITURES AND OTHER FINANCING USES	<u>\$ 8,685,885</u>	<u>\$ 8,774,586</u>	<u>\$ (88,701)</u>

**Ishpeming City School District
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2005**

	Special Revenue Funds	Debt Service Funds	Capital Projects Fund	Total
ASSETS:				
Cash and equivalents	\$ 221,875	\$ 46,883	\$ 149,173	\$ 417,931
Investments	17,727	-	44,304	62,031
Accounts receivable	-	-	-	-
Due from other funds	92,993	-	-	92,993
Due from other governmental units	1,717	-	-	1,717
Inventory - food and supplies	1,772	-	-	1,772
TOTAL ASSETS	<u>\$ 336,084</u>	<u>\$ 46,883</u>	<u>\$ 193,477</u>	<u>\$ 576,444</u>
LIABILITIES AND FUND BALANCES:				
LIABILITIES:				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Due to other funds	179,078	-	15,469	194,547
Other liabilities	-	-	-	-
TOTAL LIABILITIES	<u>179,078</u>	<u>-</u>	<u>15,469</u>	<u>194,547</u>
FUND BALANCES:				
Reserved for:				
Debt service	-	46,883	-	46,883
Capital outlay	-	-	178,008	178,008
Scholarship	152,006	-	-	152,006
Unreserved - reported in special revenue funds	5,000	-	-	5,000
TOTAL FUND BALANCES	<u>157,006</u>	<u>46,883</u>	<u>178,008</u>	<u>381,897</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 336,084</u>	<u>\$ 46,883</u>	<u>\$ 193,477</u>	<u>\$ 576,444</u>

**Ishpeming City School District
Nonmajor Governmental Funds
Combining Schedule of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2005**

	Special Revenue Funds	Debt Service Fund	Capital Projects Fund	Total
REVENUES:				
Revenues from Local sources	\$ 229,446	\$ 340,718	\$ 154,379	\$ 724,543
Revenues from State sources	17,345	-	-	17,345
Revenues from Federal sources	132,845	-	-	132,845
Other	-	-	-	-
TOTAL REVENUES	379,636	340,718	154,379	874,733
EXPENDITURES:				
Supporting services	480,932	-	-	480,932
Debt service:				
Principal	-	125,000	-	125,000
Interest	-	103,217	-	103,217
Capital outlay	19,053	-	140,995	160,048
Other	-	76,826	-	76,826
TOTAL EXPENDITURES	499,985	305,043	140,995	946,023
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(120,349)	35,675	13,384	(71,290)
OTHER FINANCING SOURCES:				
Transfers in	151,898	-	-	151,898
Proceeds on sale of bonds	-	3,365,000	-	3,365,000
Premium on sale of bonds	-	18,526	-	18,526
Payments to escrow agent	-	(3,504,500)	-	(3,504,500)
TOTAL OTHER FINANCING SOURCES (USES)	151,898	(120,974)	-	30,924
NET CHANGE IN FUND BALANCE	31,549	(85,299)	13,384	(40,366)
Fund Balance, July 1	125,457	132,182	164,624	422,263
FUND BALANCE, JUNE 30	\$ 157,006	\$ 46,883	\$ 178,008	\$ 381,897

**Ishpeming City School District
Nonmajor Special Revenue Funds
Combining Balance Sheet
June 30, 2005**

	School Lunch Fund	Athletic Fund	Scholarship Fund	Total
ASSETS:				
Cash and equivalents	\$ 50,216	\$ 37,380	\$ 134,279	\$ 221,875
Investments	-	-	17,727	17,727
Due from other funds	92,993	-	-	92,993
Due from other governmental units	1,717	-	-	1,717
Inventory - food and supplies	1,772	-	-	1,772
TOTAL ASSETS	<u>\$ 146,698</u>	<u>\$ 37,380</u>	<u>\$ 152,006</u>	<u>\$ 336,084</u>
LIABILITIES AND FUND BALANCES:				
LIABILITIES:				
Due to other funds	\$ 146,698	\$ 32,380	\$ -	\$ 179,078
TOTAL LIABILITIES	<u>146,698</u>	<u>32,380</u>	<u>-</u>	<u>179,078</u>
FUND BALANCES:				
Fund balance - unreserved	-	5,000		5,000
Fund balance - reserved	-	-	152,006	152,006
TOTAL FUND BALANCES	<u>-</u>	<u>5,000</u>	<u>152,006</u>	<u>157,006</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 146,698</u>	<u>\$ 37,380</u>	<u>\$ 152,006</u>	<u>\$ 336,084</u>

**Ishpeming City School District
Nonmajor Special Revenue Funds
Combining Schedule of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2005**

	School Lunch Fund	Athletic Fund	Scholarship Fund	Total
REVENUES:				
Revenues from Local sources	\$ 100,394	\$ 95,563	\$ 33,489	\$ 229,446
Revenues from State sources	17,345	-	-	17,345
Revenues from Federal sources	132,845	-	-	132,845
TOTAL REVENUES	250,584	95,563	33,489	379,636
EXPENDITURES:				
Supporting services	293,533	180,459	6,940	480,932
Capital outlay	1,850	17,203	-	19,053
TOTAL EXPENDITURES	295,383	197,662	6,940	499,985
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(44,799)	(102,099)	26,549	(120,349)
OTHER FINANCING SOURCES (USES):				
Transfers in	44,799	107,099	-	151,898
NET CHANGE IN FUND BALANCE	-	5,000	26,549	31,549
Fund Balance, July 1	-	-	125,457	125,457
FUND BALANCE, JUNE 30	\$ -	\$ 5,000	\$ 152,006	\$ 157,006

**Ishpeming City School District
School Lunch Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2005**

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Revenues from Local Sources:			
Sale of lunches	\$ 99,100	\$ 99,879	\$ 779
Income from investments	500	515	15
Total Revenues from Local Sources	<u>99,600</u>	<u>100,394</u>	<u>794</u>
Revenues from State Sources:			
State Aid	-	12,229	12,229
Grants received from the State	-	5,116	5,116
Total Revenues from State Sources	<u>-</u>	<u>17,345</u>	<u>17,345</u>
Revenues from Federal Sources:			
Grants restricted:			
Received through the State	118,000	113,453	(4,547)
U.S.D.A. Entitlement		15,751	15,751
U.S.D.A. Bonus		3,641	3,641
Total Revenues from Federal Sources	<u>118,000</u>	<u>132,845</u>	<u>14,845</u>
TOTAL REVENUES	<u>217,600</u>	<u>250,584</u>	<u>32,984</u>
EXPENDITURES:			
Salaries and wages	110,000	109,540	460
Employee benefits	26,000	25,122	878
Purchased services	720	719	1
Food costs	124,100	146,897	(22,797)
Supplies, materials, and other expenses	185	11,255	(11,070)
Capital outlay	1,890	1,850	40
TOTAL EXPENDITURES	<u>262,895</u>	<u>295,383</u>	<u>(32,488)</u>
EXCESS REVENUES (EXPENDITURES)	(45,295)	(44,799)	496
OTHER FINANCING SOURCES:			
Transfers in	45,295	44,799	(496)
NET CHANGE IN FUND BALANCE	-	-	-
Fund Balance, July 1	-	-	-
FUND BALANCE, JUNE 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Ishpeming City School District
Athletic Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2005

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Gate receipts and tournament activity	\$ 53,614	\$ 53,507	\$ (107)
Participation fee	23,250	21,275	(1,975)
Income from investments	-	130	130
Other local sources	17,681	20,651	2,970
TOTAL REVENUES	94,545	95,563	1,018
EXPENDITURES:			
Salaries	107,838	111,372	(3,534)
Employee benefits	20,434	20,582	(148)
Purchased services	24,841	24,457	384
Supplies, materials and tournament activity	22,792	24,048	(1,256)
Capital outlay	9,712	17,203	(7,491)
TOTAL EXPENDITURES	185,617	197,662	(12,045)
EXCESS REVENUES OVER (UNDER) EXPENDITURES	(91,072)	(102,099)	(11,027)
OTHER FINANCING SOURCES (USES):			
Transfers in	91,072	107,099	16,027
NET CHANGE IN FUND BALANCE	-	5,000	5,000
Fund Balance, July 1	-	-	-
FUND BALANCE, JUNE 30	\$ -	\$ 5,000	\$ 5,000

**Ishpeming City School District
Scholarship Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2005**

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Contributions from private sources	\$ -	\$ 33,486	\$ 33,486
Income from investments	-	3	3
Other local sources	-	-	-
TOTAL REVENUES	-	33,489	33,489
EXPENDITURES:			
Scholarships granted	-	6,940	(6,940)
Other	-	-	-
TOTAL EXPENDITURES	-	6,940	(6,940)
EXCESS REVENUES OVER (UNDER) EXPENDITURES	-	26,549	26,549
OTHER FINANCING SOURCES (USES):			
Transfers in	-	-	-
NET CHANGE IN FUND BALANCE	-	26,549	26,549
Fund Balance, July 1	-	125,457	(125,457)
FUND BALANCE, JUNE 30	<u>\$ -</u>	<u>\$ 152,006</u>	<u>\$ (98,908)</u>

**Ishpeming City School District
Debt Service Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2005**

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Property taxes	\$ -	\$ 337,657	\$ 337,657
Income from investments	-	3,061	3,061
TOTAL REVENUES	<u>-</u>	<u>340,718</u>	<u>340,718</u>
EXPENDITURES:			
Principal payments	-	125,000	(125,000)
Interest and fiscal charges	-	103,217	(103,217)
Other	-	76,826	(76,826)
TOTAL EXPENDITURES	<u>-</u>	<u>305,043</u>	<u>(305,043)</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>35,675</u>	<u>35,675</u>
OTHER FINANCING SOURCES (USES):			
Proceeds on sale of bonds		3,365,000	3,365,000
Premium on sale of bonds		18,526	18,526
Payments to escrow agent		(3,504,500)	(3,504,500)
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>(120,974)</u>	<u>(120,974)</u>
NET CHANGE IN FUND BALANCE	<u>-</u>	<u>(85,299)</u>	<u>(85,299)</u>
Fund Balance, July 1	<u>-</u>	<u>132,182</u>	<u>132,182</u>
FUND BALANCE, JUNE 30	<u><u>\$ -</u></u>	<u><u>\$ 46,883</u></u>	<u><u>\$ 46,883</u></u>

**Ishpeming City School District
Capital Projects Fund
Building Sinking Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2005**

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES:			
Property taxes	\$ 160,760	\$ 151,542	\$ (9,218)
Income from investments	-	2,591	2,591
Miscellaneous	-	246	246
TOTAL REVENUES	<u>160,760</u>	<u>154,379</u>	<u>(6,381)</u>
EXPENDITURES:			
Capital outlay	<u>120,240</u>	<u>140,995</u>	<u>(20,755)</u>
TOTAL EXPENDITURES	<u>120,240</u>	<u>140,995</u>	<u>(20,755)</u>
NET CHANGE IN FUND BALANCE	40,520	13,384	(27,136)
Fund Balance, July 1	<u>164,624</u>	<u>164,624</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u><u>\$ 205,144</u></u>	<u><u>\$ 178,008</u></u>	<u><u>\$ (27,136)</u></u>

COMPLIANCE SECTION



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

JOHN W. BLEMBERG, CPA

ROBERT J. DOWNS, CPA, CVA

DANIEL E. BIANCHI, CPA

MICHIGAN
ESCANABA
IRON MOUNTAIN
KINROSS
MARQUETTE
WISCONSIN
GREEN BAY
MILWAUKEE

REPORT ON COMPLIANCE AND OTHER MATTERS AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Education
Ishpeming City School District
Ishpeming, Michigan 49849

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Ishpeming City School District as of and for the year ended June 30, 2005, which collectively comprise the Ishpeming City School District's basic financial statements and have issued our report thereon dated September 23, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Ishpeming City School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. These instances are described in a separate report to management letter dated September 23, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Ishpeming City School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, others within the School District, the Board, State and Federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLC
Certified Public Accountants

September 23, 2005



ANDERSON, TACKMAN & COMPANY, P.L.C.

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Education
Ishpeming City School District
Ishpeming, Michigan 49849

Compliance

We have audited the compliance of Ishpeming City School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School District's compliance with those requirements.

In our opinion, the Ishpeming City School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of the School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Board of Education
Ishpeming City School District
Ishpeming, Michigan 49849

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, others within the School District, the Board, State and Federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

September 23, 2005

ISHPEMING CITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2005

Federal Grantor Pass Through Grantor Program Title Grant Number		Federal CFDA Number	Approved Grant Award Amount	(Memorandum Only) Prior Year Expenditures	Accrued (Deferred) Revenue 07/01/04	Current Year Expenditures	Current Year Cash Receipts	Accrued (Deferred) Revenue 06/30/05
U.S. DEPARTMENT OF EDUCATION:								
Direct Award:								
Indian Education								
	B060A042232	84.060	\$ 6,890	\$ 2,252	\$ -	\$ 6,890	\$ -	\$ 6,890
	TOTAL DIRECT AWARD		6,890	2,252	-	6,890	-	6,890
Passed through Michigan Department of Education (M.D.E.):								
E.C.I.A. Title I		84.010	265,343	46,350	-	-	-	-
E.C.I.A. Title I		84.010	13,884	13,884	-	-	-	-
E.C.I.A. Title I		84.010	20,307	-	-	20,307	20,307	-
E.C.I.A. Title I		84.010	251,236	224,981	52,620	26,255	78,875	-
E.C.I.A. Title I		84.010	240,277	-	-	212,936	143,695	69,241
			791,047	285,215	52,620	259,498	242,877	69,241
School Renovation, IDEA & Tech Program		84.352	98,000	1,023	-	-	-	-
Title VI LEA Allocation		84.298	2,092	2,092	-	-	-	-
Title V LEA Allocation		84.298	2,814	-	-	2,814	2,814	-
Title V LEA Allocation		84.298	4,009	4,009	4,009	-	4,009	-
			8,915	6,101	4,009	2,814	6,823	-
Technology Literacy								
054290-0405		84.318	6,106	-	-	6,106	6,106	-
044290-0304		84.318	6,572	6,572	2,072	-	2,072	-
			12,678	6,572	2,072	6,106	8,178	-
Improving Teacher Quality								
050520-0405		84.367	68,274	-	-	68,274	68,274	-
040520-0304		84.367	69,959	69,959	3,424	-	3,424	-
			138,233	69,959	3,424	68,274	71,698	-
TOTAL PASSED THROUGH M.D.E.			1,048,873	368,870	62,125	336,692	329,576	69,241
Passed Through Marquette-Alger Regional Educational Service Agency (MARESA):								
Perkins								
4012-02		84.048	7,702	7,702	7,702	-	7,702	-
5012-02		84.048	5,526	-	-	5,526	5,526	-
			13,228	7,702	7,702	5,526	13,228	-
Preschool Grant								
040460-0304		84.173	1,000	1,000	-	-	-	-
050460-0405		84.173	1,112	-	-	1,112	1,112	-
			2,112	1,000	-	1,112	1,112	-

ISHPERING CITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2005

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memorandum Only) Prior Year Expenditures	Accrued (Deferred) Revenue 07/01/04	Current Year Expenditures	Current Year Cash Receipts	Accrued (Deferred) Revenue 06/30/05
Flow Through							
040450-0304	84.027	\$ 112,543	\$ 102,504	\$ 28,620	\$ -	\$ 28,620	\$ -
050450-0405	84.027	68,092	-	-	68,092	68,092	-
		180,635	102,504	28,620	68,092	96,712	-
Safe & Drug Free Schools & Communities							
052860-0405	84.186	2,991	-	-	2,991	2,991	-
042860-0304	84.186	3,072	3,072	-	-	-	-
032860-0304	84.186	9,217	7,199	-	-	-	-
		15,280	10,271	-	2,991	2,991	-
TOTAL PASSED THROUGH MARESA		211,255	121,477	36,322	77,721	114,043	-
TOTAL U.S. DEPARTMENT OF EDUCATION		1,267,018	492,599	98,447	421,303	443,619	76,131
U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES: Passed Through Marquette-Alger Regional Educational Service Agency (MARESA): LEA Medicaid Fee for Service - Transportation	93.778	8,179	-	-	6,647	6,647	-
TOTAL U.S. DEPT OF HEALTH & HUMAN SERVICES		8,179	-	-	6,647	6,647	-
U.S. DEPARTMENT OF AGRICULTURE: Passed Through M.D.E.: Nutrition Cluster: National School Lunch Program: Section 4 - All Lunches Section 11 - Free & Reduced Lunches National School Breakfast Program	10.555 10.555 10.553	18,571 73,685 21,198 113,454	18,865 78,324 20,319 117,508	- - - -	18,571 73,685 21,198 113,454	18,571 73,685 21,198 113,454	- - - -
TOTAL NUTRITION CLUSTER							
Food Distribution: Bonus Commodities Entitlement Commodities	10.550 10.550	2,499 15,640 18,139	2,499 15,640 18,139	- - -	15,751 3,640 19,391	15,751 3,640 19,391	- - -
TOTAL FOOD DISTRIBUTION							
TOTAL PASSED THROUGH M.D.E.		131,593	135,647	-	132,845	132,845	-
TOTAL U.S. DEPARTMENT OF AGRICULTURE		131,593	135,647	-	132,845	132,845	-
GRAND TOTAL		\$ 1,406,790	\$ 628,246	\$ 98,447	\$ 560,795	\$ 583,111	\$ 76,131

ISHPEMING CITY SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2005

NOTE A – OVERSIGHT AGENCY:

The U.S. Department of Education is the current year's oversight agency for the single audit as determined by the agency providing the largest share of the District's federal awards.

NOTE B – BASIS OF ACCOUNTING:

The Schedule of Expenditures of Federal Awards has been prepared on the accrual basis of accounting.

NOTE C – STATE GRANTS:

The following state grants were reported on Form R7120, Grants Section Auditors Report for the year ending June 30, 2005 and are not included on the Schedule of Expenditures of Federal Awards.

<u>Description</u>	<u>Project Number</u>	<u>Amount Reported</u>
School Breakfast Program	046320	\$5,116
Drivers Education Grants	046650	8,107
TOTAL		<u>\$13,223</u>

NOTE D – FINAL COST REPORT - FORM DS4044:

The final cost reports are not due until 60 days after the end of the grant period. The reports for the current year were not completed as of the date of our report. However, we reviewed the reports filed for the prior year grants and noted that they agreed with either the prior year audited figures or the prior year and current year audit figures combined.

NOTE E – SCHEDULE OF FEDERAL AWARDS:

The amounts reported as current payments on the R7120, Grant Section Auditors Report, reconcile with the Schedule of Federal Awards as follows:

Current Payments per R7120		\$456,253
Add payments not on R7120:		
Food distribution commodities	\$19,391	
Direct Award	6,890	
Passed through MARESA	84,368	
Recorded as receivable at June 30, 2005:		
Title I	69,241	179,890
Less payments on R7120 not Federal:		
School Breakfast Program	(5,116)	
Drivers Education Grants	(8,107)	(13,223)
Less Payments on R7120:		
Recorded as receivable at June 30, 2004:		
Title I	(62,739)	
Title V, LEA Allocation	(4,009)	
Technology Literacy	(2,072)	
Improving Teacher Quality	(3,424)	(72,244)
Recorded as deferred revenue at June 30, 2005:		
Title I – FY2003-04		10,119
TOTAL FEDERAL AWARDS EXPENDITURES REPORTED IN THE SCHEDULE OF FEDERAL AWARDS		<u>\$560,795</u>

NOTE E – SCHEDULE OF FEDERAL AWARDS (Continued):

A reconciliation of expenditures on the Schedule of Federal Awards to federal revenue recognized is as follows:

GENERAL FUND:

Total Federal Revenue Sources reported in the financial statements	\$417,831
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Reconciling Item:

Title I FY 2003-04 deferred revenue used in FY 2004 – 2005 as reported on the Schedule of Expenditures of Federal Awards	10,119
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SCHOOL LUNCH SPECIAL REVENUE FUND:

Total Federal Revenue Sources as reported in the financial statements	<u>132,845</u>
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TOTAL FEDERAL AWARD EXPENDITURES REPORTED IN THE SCHEDULE OF FEDERAL AWARDS	<u>\$560,795</u>
--	------------------

ISHPEMING CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year June 30, 2005

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of the Ishpeming City School District.
2. No reportable conditions relating to the audit of the financial statements are reported in this schedule.
3. Instances of noncompliance material to the financial statements were disclosed during the audit and are reported in Section B of this schedule.
4. No reportable conditions relating to the audit of the major federal award programs are reported in this schedule.
5. The auditors' report on compliance for the major federal award programs expresses an unqualified opinion.
6. No audit findings relative to the major federal award program were disclosed during the audit.
7. The programs tested as major programs were:

Title I	CFDA 84.010
Flow Through	CFDA 84.027
Preschool Grant	CFDA 84.173
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Ishpeming City School District was determined to be a high-risk auditee.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

- The following noncompliance item was noted:

05-1

Condition: The School District was found to be in violation of the legal and contractual provisions of Public Act 621 whereby excesses of expenditures over appropriations existed in certain individual funds as enumerated in Footnote J of the financial statements.

Criteria: Internal controls should be in place to ensure expenditures do not exceed appropriations.

Effect: When expenditures exceed appropriations, the School District is in violation of Public Act 621 and there is a potential negative impact on the financial position.

Recommendation: Management should monitor expenditures throughout the fiscal year to ensure expenditures do not exceed appropriations.

Management Response: Management concurs.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT (Continued):

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS PROGRAMS
AUDIT**

None

ISHPEMING CITY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the year June 30, 2005

There were no findings and questioned costs
for major federal awards in the prior year.



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

JOHN W. BLEMBERG, CPA

ROBERT J. DOWNS, CPA, CVA

DANIEL E. BIANCHI, CPA

MICHIGAN
ESCANABA
IRON MOUNTAIN
KINROSS
MARQUETTE
WISCONSIN
GREEN BAY
MILWAUKEE

Board of Education
Ishpeming City School District
Ishpeming, Michigan 49849

In planning and performing our audit of the financial statements of the Ishpeming City School District, Ishpeming, Michigan as of and for the year ended June 30, 2005 we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain instances of noncompliance that are required to be reported under Government Auditing Standards. We also noted certain other matters for which we feel consideration should be given.

Instances of Non-Compliance

The State of Michigan has enacted Public Act 621, the Uniform Budgeting and Accounting Act, to provide for a system of uniform procedures for the preparation and execution of budgets in local units of government. The main purpose of P.A. 621 was to require that all local units of government adopt balanced budgets to establish responsibilities and define the procedure for the preparation, adoption and maintenance of the budget, and to require certain information for the budget process, including data for capital construction projects. The major provisions of P.A. 621 are as follows:

Local units of government must adopt a budget.

1. The budget, including accrued deficits and available unappropriated surpluses, must be balanced.
2. The budget must be amended when necessary.
3. Debt shall not be entered into unless the debt is permitted by law.
4. Expenditures shall not be incurred in excess of the amount appropriated.
5. Expenditures shall not be made unless authorized in the budget.
6. Violations of the act, disclosed in an audit of the financial records, in the absence of reasonable procedure shall be filed with the State Treasurer and reported to the Attorney General.

During the year, the School District generally conformed with the act except in the following instances:

Expenditures exceeded budget levels in certain categories in various School District funds for which budgets were adopted. A listing of the funds in which this has occurred is as follows:

	Excess Expenditures/Expenses
General Fund:	
Instruction – employee benefits	\$812
Instruction – added needs	9,966
Supporting Services – general administration	2,377
Supporting Services – other	2,430
Special Revenue Funds:	
Athletic Activities	12,045
Scholarship Fund	6,940
School Lunch Fund	32,488

We remind the School Board of the provisions of P.A. 621 and recommend in the future, practices be refined and more closely monitored to conform to the Act.

Other Comments and Recommendations

During our testing of the payroll system, we noted there was no formal documented approval of the substitute teacher pay scale or the student computer tech pay rate. We recommend the Superintendent submit a memo or other form of documentation to the payroll clerk annually indicating the approved pay rates in these areas.

During our analysis of the District's financial position at the end of FY2004-2005, we noted there was a District-wide decline of \$495,000, excluding debt and capital asset activity. We also noted the General Fund experienced a net loss of \$690,000 or 47% and the Other Governmental Funds experienced a net loss of \$40,000 or 9%. The General Fund had a \$777,000 fund balance and the other governmental funds had a \$382,000 fund balance going forward into FY2005-2006. The combined fund balance for all governmental funds amounts to \$1,159,000 or approximately 47 days worth of expenditures in fund balance.

A general recommendation is for local units to maintain between 60 and 120 days worth of expenditures in their fund balance. For the District, this would amount to a recommended combined governmental funds fund balance level of between \$1,480,000 and \$2,960,000. As the District is now below this level, we recommend the Board review the District's future budgets to address this declining financial position.

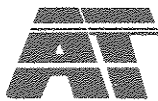
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Our comments and recommendations are submitted as constructive suggestions to assist you in strengthening internal controls. We appreciate the cooperation and courtesy extended to us by the District's staff during our audit and would be pleased to discuss our recommendations with you further at your convenience.

This report is intended solely for the information and use of the Ishpeming City School District.

Anderson, Tackman & Company, PLC
Certified Public Accountants

September 23, 2005



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

JOHN W. BLEMBERG, CPA

ROBERT J. DOWNS, CPA, CVA

DANIEL E. BIANCHI, CPA

September 23, 2005

MICHIGAN
ESCANABA
IRON MOUNTAIN
KINROSS
MARQUETTE
WISCONSIN
GREEN BAY
MILWAUKEE

Board of Education
Ishpeming School District No. 1
Ishpeming, Michigan 49849

We have audited the basic financial statements of Ishpeming School District No. 1 for the year ended June 30, 2005, and have issued our report thereon dated September 23, 2005.

Our professional standards require that we make several communications to you, the purpose of which is to assist you with additional information regarding the scope and results of the audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

Our Responsibility under Generally Accepted Auditing Standards

Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with generally accepted accounting principles. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control structure of the School District. Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for safeguarding assets and for maintaining the structure of the internal control system to help assure the proper recording of transactions. Our consideration of the system of internal control was solely for the purpose of determining our auditing procedures and not to provide any assurance concerning the adequacy of such internal control structure.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management of the appropriateness of the accounting policies and their application. The significant accounting policies adopted by the School District are described in Footnote A. We noted no transactions entered into by the School District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Management Judgments and Accounting Estimates

Some accounting estimates are utilized in financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the

Board of Education
Ishpeming School District No. 1
Ishpeming, Michigan 49849

possibility that future events affecting them may differ significantly from those expected. These estimates are relatively insignificant in relation to the financial statements taken as a whole.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the School District that could potentially cause future financial statements to be materially misstated, even though we have concluded such adjustments are not material to the current financial statements. We made no such adjustments during the course of our audit.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether significant or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about accounting and auditing matters, similar to obtaining a second opinion on certain situations.

If a consultation involves application of an accounting principal to the School District or a determination of the type of auditors' opinion to be expressed on those statements, our professional standards require the consulting accountant to advise us so as to determine the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit.

Conclusion

This information is intended solely for the use of the Board of Education and management of the School District and should not be used for any other purpose.

Anderson, Tackman & Company, PLC
Certified Public Accountants